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Mid-year 2008; an interim respite for Boston's commercial real estate road to recovery

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If the market is looked at as a single point in time, we are in a world of difficult times. Financial collapse is all around us. The credit crunch requires large equity commitments to make real estate financially feasible. Shadow Statistics (www.shadowstats.com) show rates of inflation far beyond 3%-4% that the CPI would suggest.

CBRE's Q2 statistics for Boston are consistent with a world view:

* Class B/C office space in Boston with a (239,367 s/f) absorption
* Suburban office space with a (533,972 s/f) absorption
* Total office absorption of (61,475 s/f)
* Total industrial absorption of (431,831 s/f)

Many property owners are heavily discounting "average asking rent" to keep space occupied.

The purpose of this article is to look beyond mid 2008 and predict where we most likely will be when we recover from what I call the second hump in our market.

Boston's economy is different than that found in many parts of the country. That it is not in uniform decline is good for our region. There is no question that contraction is occurring in employment sectors such as trade, financial services, leisure, and government.

Boston however has other arrows in its quiver. Please remember that our region suffered a serious reversal with huge job losses beginning Q1 2001. We began to slowly work our way back beginning in 2004.

This time job recovery is expected in other employment areas. The largest growth area is expected to be education and health services. The predicted rate of growth is 2% per year and directly translates into 54,100 jobs over the next four years.

There is well known demand for Boston's highly educated work force, particularly in internet, scientific fields, engineering and consulting. Thus, the second growth arrow is expected to be professional or business services. Projections are for a 1.2% growth rate and 23,500 jobs over the next 4 years.

What is deceptive is in the area of manufacturing. While most certainly job losses will continue on their 10 year trend, those jobs in place are far different today. Manufacturing that is emerging is high output, technical manufacturing that can not be outsourced. I recently inspected a manufacturing building where 100% of manufacturing was done within Class 1000 clean rooms.

While there is no question that currently we are experiencing pain in our office and industrial markets, the key part of any market analysis is to outline where the market will most likely be in the next three to four years.

In my view, the pain can not stop until the market overall in terms of employment recovers to where it was in 2001. This means that the high tech field still must recover jobs which with slow growth, will not have been accomplished until 2011.

When I look at supply and demand and the amount of available space, we will not be at a 10% vacancy rate until the 2012 time frame.

The credit market turmoil has created in my view an important resting place for our markets. The market in the 1999 to 2007 time frame was driven by an excess supply of capital chasing real estate.

With only major players able to now finance, new construction but for several deep pocket developments is largely on hold.

Historically, new construction in Boston has been built on speculation. From 1977 on, every new office tower in downtown was built without pre leasing at ground breaking.

With the level of availability in our market as outlined herein, and a recovery period to 2012, we are at a good time to reposition our market and prepare for our next growth spurt.

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